

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-01 H-02 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-02 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 ICA-20 SP-02 SOE-02 OMB-01
DOE-15 MMO-01 JUSE-00 GSA-02 /125 W
-----038965 241251Z /43

R 241213Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 7863
INFO AMEMBASSY PARIS
AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

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PARIS FOR USOECD

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, CA
SUBJECT: CANADIAN GNP GROWTH SLUGGISH IN FIRST QUARTER.

REFS: A. OTTAWA 3176 B. CERP 0101

1. SUMMARY. CANADIAN REAL GNP GROWTH SLUMPED TO ANNUAL
RATE OF 2.7 PERCENT IN FIRST QUARTER FOLLOWING REVISED
RATE OF 6 PERCENT IN FOURTH QUARTER LAST YEAR. STRONG
EXPANSION OF NET EXPORTS, LINKED IN PART TO SPECIAL FAC-
TORS, LED FIRST QUARTER GROWTH. BOOSTED BY TAX CUTS AND
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DECLINE IN SAVINGS RATE, PRIVATE CDNSUMPTION ALSO GREW
RAPIDLY. PRIVATE INVESTMENT CONTINUED TO DECLINE WITH
EXCESS CAPACITY ACTING AS MAIN DETERRENT. PACE OF INFLA-
TION (GNP DEFLATOR) QUICKENED COMPARED WITH PREVIOUS
QUARTER. FIRST QUARTER RESULTS DO NOT IMPLY LATEST
EMBASSY FORECAST FOR NEXT TWELVE MONTHS (REF. A) SHOULD
BE REVISED. END SUMMARY.

2. GNP: CANADIAN REAL GNP GREW AT ONLY 2.7 PERCENT ANNUAL RATE IN FIRST QUARTER, DOWN FROM REVISED 6 PERCENT ANNUAL RATE OF INCREASE IN FOURTH QUARTER LAST YEAR. GNP FOR 1977 WAS REVISED UPWARD (ESPECIALLY FOR FOURTH QUARTER) WITH RESULT THAT FOURTH QUARTER GROWTH IS NOW PUT AT 6 PERCENT ANNUAL RATE IN CONTRAST TO 3.4 PERCENT INITIALLY ESTIMATED. UPWARD REVISIONS WERE NOT CONCENTRATED ON ANY ONE DEMAND COMPONENT AND, BECAUSE 1976 GNP WAS ALSO REVISED UPWARD, HAD LITTLE EFFECT ON YEAR OVER YEAR 1977 GROWTH RATE, WHICH MOVED FROM 2.6 PERCENT TO 2.65 PERCENT. REVISIONS DO, HOWEVER, HAVE IMPORTANT EFFECT ON PRELIMINARY GROWTH FIGURES FOR FIRST QUARTER 1978, WHICH WOULD HAVE SHOWN ANNUAL GROWTH RATE OF 6.3 PERCENT BASED ON PREVIOUS 1977 DATA. DISCUSSION OF BEHAVIOUR OF MAIN GNP COMPONENTS IN FIRST QUARTER FOLLOWS.

3. CONSUMPTION: REAL PRIVATE CONSUMPTION (SA) ROSE BY 1.2 PERCENT IN FIRST QUARTER. PERSONAL INCOME GREW BY 1.3 PERCENT IN NOMINAL TERMS, WHILE TAX CUTS IN JANUARY AND FEBRUARY BOOSTED GROWTH OF DISPOSABLE INCOME TO 1.8 PERCENT. WITH NOMINAL CONSUMPTION SPENDING (3 PERCENT) GROWING AT FASTER RATE THAN INCOMES, SAVINGS RATE FELL TO 10.8 PERCENT IN FIRST QUARTER FROM 11.5 PERCENT IN PREVIOUS QUARTER. EXPENDITURE IN DURABLES WAS PARTICULARLY STRONG AS WAS SPENDING ON SERVICES, ESPECIALLY TRAVEL.

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IMPLICIT PERSONAL CONSUMPTION DEFLATOR ROSE AT SEASONALLY ADJUSTED ANNUAL RATE OF 6.6 PERCENT IN QUARTER.

4. PRIVATE INVESTMENT: PRIVATE INVESTMENT CONTINUED WEAK, DECLINING BY 1.9 PERCENT. DECLINE IN INVESTMENT ATTRIBUTABLE TO LARGE AND GROWING MARGIN OF EXCESS PRODUCTIVE CAPACITY. PROFITS WERE UP 6.3 PERCENT IN QUARTER.

5. FOLLOWING REAL ACCUMULATION OF CDOLS 176 MILLION IN FOURTH QUARTER, 1977, INVENTORIES FELL BY CDOLS 336 MILLION IN FIRST QUARTER, A NEGATIVE SWING OF CDOLS 566 MILLION. MUCH OF LIQUIDATION WAS IN WHOLESALE STOCKS; SOME OF INCREASED EXPORTS OF MINING PRODUCTS ALSO CAME OUT OF INVENTORIES.

6. EXTERNAL SECTOR: REAL EXPORTS OF GOODS AND SERVICES ROSE BY 2.5 PERCENT TO CDOLS 29.7B (SAAR), WHILE REAL IMPORTS OF GOODS AND SERVICES DECLINED BY 0.25 PERCENT TO CDOLS 32.2B (SAAR), PRODUCING CDOLS 728 INCREASE FROM PREVIOUS QUARTER IN NET EXPORTS. SUBSTANTIAL IMPROVEMENT IN REAL FOREIGN BALANCE DOMINATED BY GROWTH OF NET MERCHANDISE EXPORT VOLUMES. REAL MERCHANDISE EXPORTS GREW

BY 3.2 PERCENT TO CDOLS 25.2B (SAAR) IN QUARTER; MERCHAN-
DISE IMPORTS FELL BY 0.19 PERCENT TO CDOLS 23.2B (SAAR).
STATCAN NOTES THAT DRAMATIC IMPROVEMENT OF MERCHANDISE
TRADE POSITION WAS DUE NOT RPT NOT TO INCREASED COMPETI-
TIVENESS, BUT PRIMARILY TO SPECIAL FACTORS SUCH AS STOCK-
PILING OF COPPER AND NICKEL IN U.S. (IN ANTICIPATION OF

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PRICE INCREASES) AND COAL STRIKE. IN ADDITION, CANADIANS
MAY HAVE ACCELERATED EXPORTS OF STEEL TO U.S. IN ADVANCE
OF IMPLEMENTATION IN APRIL OF "TRIGGER PRICE" MECHANISM.
DECLINE IN TRADE SURPLUS. IN APRIL SUPPORTS VIEW THAT EXTRA-
ORDINARY FIRST QUARTER PERFORMANCE PARTLY TRACEABLE TO
UNUSUAL CIRCUMSTANCES.

7. PUBLIC SECTOR: CURRENT GOVERNMENT SPENDING ON GOODS
AND SERVICES ROSE BY 1.6 PERCENT IN REAL TERMS IN FIRST
QUARTER COMPARED WITH 0.7 PERCENT RISE IN PREVIOUS QUAR-
TER, THUS PROVIDING SOME IMPETUS TO GROWTH. INCOME TAX
CUTS IN JANUARY AND FEBRUARY BOOSTED CONSUMPTION SPENDING-
ESPECIALLY ON DURABLES. HOWEVER, GOVERNMENT REAL CAPITAL
SPENDING SAGGED BY 2.8 PERCENT, CONTRIBUTING TO 2 PERCENT

FALL IN REAL GROSS FIXED CAPITAL FORMATION IN QUARTER.

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8. PRICES: GNP DEFLATOR INCREASED AT SEASONALLY ADJUSTED ANNUAL RATE OF 6.6 PERCENT IN FIRST QUARTER, FOLLOWING RISE OF ONLY 3.6 PERCENT IN PREVIOUS QUARTER. INCREASE IN PERSONAL CONSUMPTION DEFLATOR SHOWED OPPOSITE PATTERN BETWEEN QUARTERS, INCREASING AT ANNUAL RATE OF 6.6 PERCENT IN FIRST QUARTER DOWN FROM 7.5 PERCENT RATE IN FOURTH QUARTER 1977. ONE REASON FOR DIVERGENT MOVEMENT OF GNP AND PERSONAL CONSUMPTION DEFLATORS MAY BE THAT CONSUMPTION IN FIRST QUARTER EXPENDITURE WAS HEAVILY WEIGHTED TOWARD DURABLES WHOSE PRICE INCREASES MODERATED SUBSTANTIALLY BETWEEN QUARTERS.

9. COMMENT: FIRST QUARTER GROWTH AND RESULTS DO NOT IMPLY REVISION OF EMBASSY FORECAST (REF A). EXTERNAL SECTOR VERY STRONG IN FIRST QUARTER, BUT GROWTH FROM THIS SOURCE HAS SUBSEQUENTLY SLACKED OFF A BIT. SAVINGS RATIO DECLINED IN QUARTER BUT COULD WELL RISE AGAIN AS STIMULUS TO DURABLES PURCHASES PROVIDED BY INCOME AND SALES TAX CUTS WEARS OFF. GROWTH OF FINAL DEMAND WAS A HEALTHY 4.4 PERCENT (SAAR) IN FIRST QUARTER, WHILE INVENTORY DECUMULATION REDUCED GNP GROWTH TO 2.4 PERCENT. INVENTORY/SHIPMENTS RATIO STOOD WELL BELOW ITS LONG TERM AVERAGE IN APRIL. THUS, NEXT SIGNIFICANT SHIFT TOWARD ACCUMULATION COULD WELL MATERIALIZE IN NEXT FEW MONTHS. IN SHORT RUN, WE WOULD EXPECT FASTER GROWTH OF REAL GNP THAN RECORDED IN FIRST QUARTER AS SLOWER GROWTH OF FINAL DEMAND IS MORE THAN OFFSET BY STRONGER CONTRIBUTION TO GROWTH FROM INVENTORY ACCUMULATION.

10. TABLES.

GNP, 1977-78, BILLIONS OF 1971 CANADIAN DOLLARS, SEASONALLY
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ADJUSTED AT ANNUAL RATE (SAAR) AND PERCENT CHANGE FROM
PREVIOUS PERIOD SHOWN IN BRACKETS ().

-- ALL 1977 QIV 1977 QI 1978

TOTAL GNP:	122.56	124.22	125.05
--	(6.0)	(2.7)	

FINAL DOMESTIC

DEMAND:	127.00	127.11	127.89
--	(5.2)	(4.4)	

PERSONAL CONSUMPTION:	77.40	78.00	78.96
--	(3.2)	(4.8)	

BUSINESS SPENDING:	23.39	22.86	22.43
--	(-12.4)	(-7.6)	

GOVERNMENT

SPENDING:	26.21	26.25	26.50
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FOREIGN BALANCE:	-4.66	-3.40	-2.60
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ENDERS

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Message Attributes

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